

MONTANA OPERATIONS MANUAL  MANAGEMENT MEMO		Vol.	Year	No.
	Management Memo Number	2	- 96 -	15
	Date Issued	06/24/96		
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SUBJECT:	Revenue Recognition in Modified Accrual Funds			

TO: All State Agencies

FROM: Accounting Bureau - Department of Administration

**THIS MANAGEMENT MEMO UPDATES MM 2-92-7 ISSUED 06/09/93, WHICH SHOULD BE REMOVED FROM YOUR MANUAL AND DISCARDED.**

### INTRODUCTION

This Management Memo establishes State accounting policy with regard to the recognition of revenue in the modified accrual funds (A/Es 01XXX through 05XXX and 08XXX). Since this management memo was originally written, the Governmental Accounting Standards Board (GASB) has issued **Statement No. 22 - Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds**. Statement No. 22 confirmed revenue recognition principles previously adopted by this and other state and local governmental entities.

### GENERAL DISCUSSION

In modified accrual funds, revenues/additions are recognized in the accounting period in which they become susceptible to accrual -- that is, when they become both **measurable and available**. Revenue is **measurable** if 1) the precise amount is known because the transaction is completed, or 2) there is enough information to provide a reasonable, although not necessarily precise, estimate of the net realizable revenue to be received. Experience often provides a basis for determining a reasonable estimate.

**Available** means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue is considered to be available if 1) it has actually been received and deposited in the State treasury during the fiscal year; 2) the revenue is in the possession of a collecting agent on the last day of the fiscal year (June 30) and will be received by the State within 60 days after June 30; 3) the revenue is due for the period ending June 30 but the payer is allowed an administrative lead time of **no more than 60 days** to process the paperwork to calculate the liability and make the remittance to the State; or 4) the revenue is for federal accounting entities with **reimbursable grants** and a legal, irrevocable commitment from the federal government exists to pay expenses incurred.

### ACCOUNTING PROCEDURES

#### Establishment of Accrual During FYE Period

For those revenues determined to be susceptible to accrual, as defined above, a receivable net of estimated uncollectibles should be recorded at FYE. In addition, for those revenues subject to refund, e.g. income tax withholding, the agencies should record an estimated liability and corresponding reduction in revenue for refunds that are associated with the revenue accrued and expected to be paid in the coming year. The amount expected to be refunded should be determined after giving due consideration to current economic factors and the statistical experience for that revenue source. The estimated refunds may be calculated as a percentage of the recorded revenue based on the experience of prior years. Entries to record a revenue accrual should be made during the fiscal year-end period as follows:

DR     C/A 1203 - Accounts Receivable  
          Or  
        C/A 1302 - Due From Federal Government  
        C/A 1303 - Due From Local Government

CR     C/A 5101 - Budgeted Revenues/Additions  
          Or  
        C/A 5103 - Nonbudgeted Revenues/Additions

**NOTE:** For each type of major tax or fee revenue, agencies must use a different object of revenue (O/R) than the one used for recording the receipt of that revenue during the fiscal year. For example, Department of Revenue uses O/R 0655 to record revenue from cigarette tax and O/R 9655 to record the revenue accrued during fiscal year-end for cigarette tax. Both objects go to the same revenue class and must be added together to determine total revenue from that source for the fiscal year. The separate O/R should be used when the accrual is reversed in October of the following fiscal year.

### **Revenue and Accrual Entries Beginning of Next Fiscal Year**

In the next fiscal year, all cash receipts are recorded as current year revenue whether or not receipts are related to the revenue accruals established in the previous FYE period. In the month of October, when all revenue related to the previous year's accruals is expected to have been received, the following entries must be made:

#### **1. Prior Year Revenue Adjustment**

The portion of current year receipts collected in the first quarter of the fiscal year that correspond to the revenue accrued at the end of the previous fiscal year and estimated to be received within 60 days after fiscal year-end should be taken out of current year revenue (C/A 5101) and reported as prior year revenue (C/A 5109).

#### **2. Accrual Reversal**

The original accrual entry is reversed with a debit to C/A 5109 - Prior Year Revenues/Additions Adj and a credit to the appropriate receivable control account.

The following is an example of the transactions that would occur during the fiscal year-end process of the first year through October of the following year:

FY96 Revenue Accrual:     \$100,000  
 FY97 Actual Receipts:     \$200,000 of which \$175,000 is FY96 revenue

At FYE96:

DR	C/A 1203 - Accounts Receivable	\$100,000
CR	C/A 5101 - Budgeted Revenues	\$100,000

To establish accrual at FYE.

FY97 July thru Sept.:

DR	C/A 1104 - Cash	\$200,000
CR	C/A 5101 - Budgeted Revenues	\$200,000

To record actual revenue received.

October:

DR	C/A 5101 - Budgeted Revenues	\$175,000
CR	C/A 5109 - Prior Year Revenue Adj	\$175,000

To adjust current year receipts for that portion that relates to the prior year.

  

DR	C/A 5109 - Prior Yr Revenue Adj	\$100,000
CR	C/A 1203 - Accounts Receivable	\$100,000

To reverse accrual entry.

### **Revenue and Accrual Entries That Incorporate Changes in Tax Distribution**

Section 15-1-501(6), MCA, requires that the distribution of tax receipts must be made in accordance with the provisions

of the law governing the allocation of the tax in effect for the period in which the tax revenue was recorded for accounting purposes. Periodically, changes in the distribution of a particular tax occur at the beginning of the fiscal year and the receipts collected in the first 60 days of the fiscal year are distributed differently than the same tax revenue accrued at the end of the previous fiscal year. Entries must be made to adjust the distribution of the tax receipts received in the first part of the current fiscal year that are attributable to the same tax revenue accrued in the previous fiscal year. The following is an example of the entries that would need to be made:

FY96 Revenue Accrual: \$100,000

FY97 Actual Receipts: \$200,000 of which \$175,000 was FY96 revenue

FY96 Distribution: 50% General Fund; 50% State Special Revenue Fund

FY97 Distribution: 40% General Fund; 40% State Special Revenue Fund; 20% Debt Service Fund

At FYE96:

DR	C/A 1203 (A/E 01100)	\$50,000
DR	C/A 1203 (A/E 02xxx)	\$50,000
CR	C/A 5101 (A/E 01100)	\$50,000
CR	C/A 5101 (A/E 02xxx)	\$50,000

To establish accrual at FYE.

FY97 July thru Sept.:

DR	C/A 1104 (A/E 01100)	\$80,000
DR	C/A 1104 (A/E 02xxx)	\$80,000
DR	C/A 1104 (A/E 04xxx)	\$40,000
CR	C/A 5101 (A/E 01100)	\$80,000
CR	C/A 5101 (A/E 02xxx)	\$80,000
CR	C/A 5101 (A/E 04xxx)	\$40,000

To record actual revenue received.

October

DR	C/A 5101 (A/E 01100)	\$70,000
DR	C/A 5101 (A/E 02xxx)	\$70,000
DR	C/A 5101 (A/E 04xxx)	\$35,000
CR	C/A 1104 (A/E 01100)	\$70,000
CR	C/A 1104 (A/E 02xxx)	\$70,000
CR	C/A 1104 (A/E 04xxx)	\$35,000
DR	C/A 1104 (A/E 01100)	\$87,500
DR	C/A 1104 (A/E 02xxx)	\$87,500
CR	C/A 5109 (A/E 01100)	\$87,500
CR	C/A 5109 (A/E 02xxx)	\$87,500

To correct distribution of \$175,000 and record as prior year revenue.

DR	C/A 5109 (A/E 01100)	\$50,000
DR	C/A 5109 (A/E 02xxx)	\$50,000
CR	C/A 1203 (A/E 01100)	\$50,000
CR	C/A 1203 (A/E 02xxx)	\$50,000

To reverse accrual entry.

### **Adjustments for the Comprehensive Annual Financial Report (CAFR)**

Even if there is a substantial difference between the amount accrued and the amount received, adjustments to the accrual amounts will not be made in the CAFR financial statements except to correct a material error that occurred in the calculation of the accrual. Based on input from the appropriate agencies, the Accounting Bureau will determine whether an adjustment of the accrued revenue is necessary for CAFR reporting purposes.

### **CLOSING**

Questions regarding this management memo should be directed to the Department of Administration, Accounting Bureau, at 444-3092.